



MISSOURI GAMING COMMISSION

THREE YEARS ENDED JUNE 30, 1999

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 2000-52  
June 27, 2000  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

June 2000

[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**The following problems were discovered as a result of an audit conducted by our office of the Missouri Gaming Commission.**

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Our audit has identified circumstances that raise questions about the state's "loss limit" per excursion. Our questions about the "loss limit" were raised when we observed the entrances to one of the boats for a gaming excursion and noted some individuals were allowed to enter the gaming excursion carrying containers of gambling tokens. Individuals entering a gaming excursion are given a "scrip" or electronic card which allows an individual to buy chips or tokens up to \$500 per gaming excursion, the buy in limit.

**Allowing individuals with a \$500 scrip or electronic card to also bring tokens onto a gaming excursion appears to have the effect of raising the buy in limit to \$500 plus the amount of the tokens or chips carried onto the boat, which appears to be a violation of the state's \$500 loss or buy in limit.**

The State Auditor's Office recommends the Missouri Gaming Commission discontinue the practice of allowing individuals to enter a gaming excursion with tokens and chips from previous gaming excursions to improve enforcement of the \$500 loss limit. In addition, we recommend the Missouri Gaming Commission request the legislature provide additional guidance regarding how the \$500 loss limit should be interpreted and enforced.

As part of our review of the Missouri Gaming Commission, we visited five of the boat operations to review procedures. A review of the gaming device (slot machines) inventory listing was performed along with testing the computer chips in several slot machines. Our review noted the following areas in need of improvement.

- For four of the boats visited, we noted several slot machines where the serial number of the slot machine per the gaming device inventory listing did not agree to the actual serial number on the slot machine. In addition, we noted on one boat an instance where the Missouri Gaming Commission property tag number per the gaming device inventory listing did not agree to the actual property tag number on the slot machine. Complete and accurate gaming device inventory listings are necessary to ensure only properly tested machines are on the gaming floor.

(over)

YELLOW SHEET

- When we were testing the computer chips in the slot machines, we noted one instance where the main computer processing board was not properly sealed to the slot machine with evidence tape. State regulations require evidence tape to be affixed by an authorized commission agent and must include the date, signature, and identification number of the agent. The Missouri Gaming Commission should ensure the processing board and computer chips are properly sealed into the slot machine to reduce the risks of tampering with the computer chips. These computer chips control the game payout percentage.

The Missouri Gaming Commission licenses companies that supply the gaming boat operators with equipment and equipment maintenance services and the licensure fees are paid by the company receiving the license. Our review noted the following needs improvement:

- Investigations for supplier licenses are not completed on a timely basis. The Missouri Gaming Commission will issue a temporary supplier license if preliminary background investigations have been successfully completed and the supplier is licensed in another state. Applications for supplier licenses have been accepted since 1993 and the Missouri Gaming Commission has issued twelve permanent supplier licenses. However, there are still nine suppliers that hold temporary supplier licenses whose application dates ranged from November 1993 to July 1996. This appears to be an excessive amount of time for a supplier to be under review.

# MISSOURI GAMING COMMISSION

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## FINANCIAL SECTION

## State Auditor's Reports



1 **CLAIRE C. McCASKILL**  
**Missouri State Auditor**

Honorable Mel Carnahan, Governor  
and  
Missouri Gaming Commission  
and  
C.E. (Mel) Fisher, Executive Director  
Missouri Gaming Commission

We have audited the accompanying special-purpose financial statements of the various funds of the Missouri Gaming Commission as of and for the years ended June 30, 1999, 1998, and 1997, as identified in the table of contents. These special-purpose financial statements are the responsibility of the commission's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash and investments of the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri Breeders Fund, and the appropriations and expenditures of the various funds of the Missouri Gaming Commission and are not intended to be a complete presentation of the financial position and results of operations of the various funds of the Missouri Gaming Commission.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri



Breeders Fund, and the appropriations and expenditures of the various funds of the Missouri Gaming Commission as of and for the years ended June 30, 1999, 1998, and 1997, in conformity with the comprehensive bases of accounting discussed in Note 1, which are bases of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated September 10, 1999, on our consideration of the commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the commission's management and was not subjected to the auditing procedures applied in the audit of the special-purpose financial statements referred to above.



Claire McCaskill  
State Auditor

September 10, 1999 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	John Blattell, CPA
In-Charge Auditor:	Randy Gordon, CPA
Audit Staff:	Bobby Showers
	Alana Flint



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Honorable Mel Carnahan, Governor  
and  
Missouri Gaming Commission  
and  
C.E. (Mel) Fisher, Executive Director  
Missouri Gaming Commission

We have audited the special-purpose financial statements of the various funds of the Missouri Gaming Commission as of and for the years ended June 30, 1999, 1998, and 1997, and have issued our report thereon dated September 10, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the special-purpose financial statements of the Missouri Gaming Commission are free of material misstatement, we performed tests of the commission's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain other instances of noncompliance which are presented in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of the Missouri Gaming Commission, we considered the commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions

involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the special-purpose financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses, and these matters are presented in the accompanying Management Advisory Report.

This report is intended for the information of the management of the Missouri Gaming Commission and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill  
State Auditor

September 10, 1999 (fieldwork completion date)

## Financial Statements

Exhibit A-1

MISSOURI GAMING COMMISSION  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN  
CASH AND INVESTMENTS  
YEAR ENDED JUNE 30, 1999

	Gaming Commission Fund	Gaming Commission Bingo Fund	Missouri Breeders Fund	Total (Memorandum Only)
RECEIPTS				
Admissions	\$ 40,694,429	0	0	40,694,429
Licenses, Penalties, and Fees	2,639,534	87,566	0	2,727,100
Reimbursement Payments	7,787,748	0	0	7,787,748
Interest	2,514,756	5,657	4,119	2,524,532
Other	4,427	0	0	4,427
Total Receipts	53,640,894	93,223	4,119	53,738,236
DISBURSEMENTS	12,278,730	44,779	1,500	12,325,009
RECEIPTS OVER (UNDER) DISBURSEMENTS	41,362,164	48,444	2,619	41,413,227
OTHER FINANCING (USES)				
Appropriations exercised by other state agencies (Note 3)	(1,945,719)	(14,977)	(172)	(1,960,868)
Transfers to Veterans' Commission Capital Improvement Trust Fund (Note 4)	(38,905,493)	0	0	(38,905,493)
Transfers to Missouri National Guard Trust Fund (Note 4)	(3,000,000)	0	0	(3,000,000)
Transfers to Missouri College Guarantee Fund (Note 4)	(3,000,000)	0	0	(3,000,000)
Transfers to Early Childhood Development Education and Care Fund (Note 4)	(25,500,000)	0	0	(25,500,000)
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER (USES)	(30,989,048)	33,467	2,447	(30,953,134)
CASH AND INVESTMENTS, JULY 1	38,885,373	56,337	71,791	39,013,501
CASH AND INVESTMENTS, JUNE 30	\$ 7,896,325	89,804	74,238	8,060,367

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-2

MISSOURI GAMING COMMISSION  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN  
CASH AND INVESTMENTS  
YEAR ENDED JUNE 30, 1998

	Gaming Commission Fund	Gaming Commission Bingo Fund	Missouri Breeder's Fund	Total (Memorandum Only)
RECEIPTS				
Admissions	\$ 39,513,350	0	0	39,513,350
Licenses, Penalties, and Fees	2,888,663	103,758	0	2,992,421
Reimbursement Payments	5,978,844	0	0	5,978,844
Interest	2,498,118	9,319	3,976	2,511,413
Other	517,382	0	0	517,382
Total Receipts	51,396,357	113,077	3,976	51,513,410
DISBURSEMENTS	13,176,031	56,694	4,000	13,236,725
RECEIPTS OVER (UNDER) DISBURSEMENTS	38,220,326	56,383	(24)	38,276,685
OTHER FINANCING (USES)				
Transfer to the General Revenue Fund-State (Note 5)	0	(121,788)	0	(121,788)
Appropriations exercised by other state agencies (Note 3)	(1,406,259)	(17,434)	(212)	(1,423,905)
Transfers to Veterans' Commission Capital Improvement Trust Fund (Note 4)	(53,876,013)	0	0	(53,876,013)
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER (USES)	(17,061,946)	(82,839)	(236)	(17,145,021)
CASH AND INVESTMENTS, JULY 1	55,947,319	139,176	72,027	56,158,522
CASH AND INVESTMENTS, JUNE 30	\$ 38,885,373	56,337	71,791	39,013,501

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-3

MISSOURI GAMING COMMISSION  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN  
CASH AND INVESTMENTS  
YEAR ENDED JUNE 30, 1997

	Gaming Commission Fund	Gaming Commission Bingo Fund	Missouri Breeders Fund	Total (Memorandum Only)
RECEIPTS				
Admissions	\$ 31,906,858	0	0	31,906,858
Licenses, Penalties, and Fees	3,195,900	120,821	0	3,316,721
Reimbursement Payments	5,456,038	0	0	5,456,038
Interest	1,717,827	6,440	3,732	1,727,999
Other	468,946	0	0	468,946
Total Receipts	<u>42,745,569</u>	<u>127,261</u>	<u>3,732</u>	<u>42,876,562</u>
DISBURSEMENTS	<u>10,489,459</u>	<u>89,112</u>	<u>0</u>	<u>10,578,571</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	32,256,110	38,149	3,732	32,297,991
OTHER FINANCING (USES)				
Appropriations exercised by other state agencies (Note 3)	<u>(1,321,031)</u>	<u>(8,211)</u>	<u>0</u>	<u>(1,329,242)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER (USES)	30,935,079	29,938	3,732	30,968,749
CASH AND INVESTMENTS, JULY 1	<u>25,012,240</u>	<u>109,238</u>	<u>68,295</u>	<u>25,189,773</u>
CASH AND INVESTMENTS, JUNE 30	<u>\$ 55,947,319</u>	<u>139,176</u>	<u>72,027</u>	<u>56,158,522</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

## Exhibit B

MISSOURI GAMING COMMISSION  
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,								
	1999			1998			1997		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE									
Personal Service	\$	0	0	0	0	0	501,192	409,239	91,953
Expense and Equipment		0	0	0	0	0	95,432	69,983	25,449
Fringe benefits, including retirement contributions for members of the Highways and Transportation Employees' and Highway Patrol Retirement System, and insurance premiums for State Highway Patrol employees assigned to work under the direction of the Gaming Commission - Personal Service Benefits		0	0	0	0	0	102,683	83,882	18,801
Fringe benefits, including retirement contributions for members of the Highways and Transportation Employees' and Highway Patrol Retirement System, and insurance premiums for State Highway Patrol employees assigned to work under the direction of the Gaming Commission - Expense and Equipment		0	0	0	0	0	18,620	13,490	5,130
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment		0	0	0	0	0	35,000	33,950	1,050
Expense and Equipment		0	0	0	0	0	8,830	8,565	265
Total General Revenue Fund - State		0	0	0	0	0	761,757	619,109	142,648

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Exhibit B

MISSOURI GAMING COMMISSION  
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,								
	1999			1998			1997		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GAMING COMMISSION FUND									
Fringe benefits, including retirement contributions for members of the Highways and Transportation Employees' and Highway Patrol Retirement System, and insurance premiums for State Highway Patrol employees assigned to work under the direction of the Gaming Commission - Personal Service Benefits	2,985,217	1,602,000	1,383,217	2,782,480	1,995,813	786,667	2,442,902	1,807,131	635,771
Fringe benefits, including retirement contributions for members of the Highways and Transportation Employees' and Highway Patrol Retirement System, and insurance premiums for State Highway Patrol employees assigned to work under the direction of the Gaming Commission - Expense and Equipment	482,609	304,182	178,427	482,609	316,306	166,303	430,001	288,261	141,740
Refunding any overpayment or erroneous payment of any amount that is credited to the Gaming Commission Fund	100,000	18,732	81,268	600,000	539,256	60,744	369,000	231	368,769
Personal Service	10,255,323	7,219,125	3,036,198	10,071,637	7,187,628	2,884,009	7,823,674	5,952,790	1,870,884
Expense and Equipment	2,089,700	1,510,874	578,826	2,836,604	2,202,988	633,616	1,683,496	1,601,497	81,999
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	284,306	283,213	1,093	274,574	273,481	1,093	206,146	206,091	55

Exhibit B

MISSOURI GAMING COMMISSION  
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,								
	1999			1998			1997		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
Division of Gaming - Expense and Equipment	0	0	0	0	0	0	143,635	84,307	59,328
Office Contract Services - Expense and Equipment	47,500	47,500	0	0	0	0	0	0	0
Total Gaming Commission Fund	16,244,655	10,985,626	5,259,029	17,047,904	12,515,472	4,532,432	13,098,854	9,940,308	3,158,546
GAMING COMMISSION BINGO FUND									
Expense and Equipment	44,783	44,779	4	44,783	44,783	0	44,783	44,099	684
Refunding any overpayment or erroneous payment of any amount received for bingo taxes and fees	5,000	0	5,000	11,000	10,211	789	5,000	0	5,000
Division of Gaming and the Division of Bingo - Expense and Equipment	0	0	0	0	0	0	5,000	5,000	0
Total Gaming Commission Bingo Fund	49,783	44,779	5,004	55,783	54,994	789	54,783	49,099	5,684
MISSOURI BREEDERS FUND									
Breeder incentive payments	10,463	1,500	8,963	10,463	4,000	6,463	10,463	0	10,463
Total Missouri Breeders Fund	10,463	1,500	8,963	10,463	4,000	6,463	10,463	0	10,463
Total All Funds	\$ 16,304,901	11,031,905	5,272,996	17,114,150	12,574,466	4,539,684	13,925,857	10,608,516	3,317,341

The accompanying Notes to the Financial Statements are an integral part of this statement.

Supplementary Data

Schedule 1

MISSOURI GAMING COMMISSION

COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

		Year Ended June 30,				
		1999	1998	1997	1996	1995
Personal service	\$	8,821,126	9,183,442	8,253,042	5,849,422	4,213,079
Refunds		20,232	553,468	231	1,496	64,868
Travel and vehicle expense		285,474	261,063	235,088	184,649	198,821
Office and communication:						
Expense		211,645	211,108	214,797	187,127	197,455
Equipment purchase		29,288	45,721	100,353	122,567	112,799
Institution and physical plant:						
Expense		404,891	392,690	356,215	240,078	211,717
Equipment purchase		11,613	15,942	155,136	13,128	49,300
Data processing expense and equipment		245,931	577,990	141,668	135,290	193,801
Professional services		652,404	890,062	834,098	614,712	347,662
Other expense		349,301	442,980	317,888	258,494	317,906
Total Expenditures	\$	<u>11,031,905</u>	<u>12,574,466</u>	<u>10,608,516</u>	<u>7,606,963</u>	<u>5,907,408</u>

The accompanying Notes to the Supplementary Data are an integral part of this statement.

Schedule 2

MISSOURI GAMING COMMISSION

COMPARATIVE STATEMENT OF CHANGES IN GENERAL FIXED ASSETS (Note 7)

BALANCE, JUNE 30, 1996	\$ 625,248
Additions	123,744
Dispositions	<u>0</u>
BALANCE, JUNE 30, 1997	748,992
Additions	428,337
Dispositions	<u>(50,506)</u>
BALANCE, JUNE 30, 1998	1,126,823
Additions	109,550
Dispositions	<u>(24,750)</u>
BALANCE, JUNE 30, 1999	<u><u>\$ 1,211,623</u></u>

The accompanying Notes to the Supplementary Data are an integral part of this statement.

## Schedule 3

MISSOURI GAMING COMMISSION  
COMPARATIVE STATEMENT OF GAMING RECEIPTS AND DISTRIBUTIONS

		Year Ended June 30,					
		1999	1998	1997	1996	1995	1994
Receipts							
Gaming Proceeds	\$	178,610,232	160,025,256	129,610,752	106,494,309	61,909,052	1,032,479
Admissions		81,388,018	79,027,303	63,817,399	44,597,666	25,183,325	539,234
Bingo Taxes		3,927,639	4,008,145	4,314,178	4,400,745	5,995,866	N/A
Licenses, Penalties, and Fees		2,727,100	2,992,421	3,316,721	2,727,271	2,625,582	2,784,617
Reimbursement Payments		7,787,748	5,978,844	5,456,038	4,302,031	1,853,126	0
Interest		3,187,691	3,071,046	2,173,975	1,305,050	570,596	30,751
Other		4,515	517,382	468,946	336,678	944,569	3,003,648
Total	\$	277,632,943	255,620,397	209,158,009	164,163,750	99,082,116	7,390,729
Distributions (Note 8)							
Gaming Commission Fund (Note 9)	\$	53,640,474	51,396,659	42,747,410	30,441,783	18,139,642	6,088,272
Gaming Proceeds for Education Fund		160,749,209	144,022,730	116,649,677	95,844,878	55,718,147	929,232
Home Dock Cities		58,733,523	55,699,780	45,014,350	33,065,885	18,831,919	373,225
Gaming Commission Bingo Fund		93,223	113,077	127,261	127,026	138,704	N/A
Bingo Proceeds for Education Fund		4,412,395	4,384,175	4,615,579	4,684,178	6,253,704	N/A
Missouri Breeders Fund		4,119	3,976	3,732	N/A	N/A	N/A
Total	\$	277,632,943	255,620,397	209,158,009	164,163,750	99,082,116	7,390,729

The accompanying Notes to the Supplementary Data are an integral part of this statement.

## Notes to the Financial Statements and Supplementary Data

MISSOURI GAMING COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Notes to the Financial Statements:

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements presents only selected data for each fund of the Missouri Gaming Commission.

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri Breeders Fund. Appropriations from these funds are expended by or for the commission and other state agencies (See Note 3) for restricted purposes.

Appropriations, presented in Exhibit B, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the commission's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the commission and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statements of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, presents amounts when they are received or disbursed.

The Statement of Appropriations and Expenditures, Exhibit B, is presented on the state's legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. Expenditures include amounts payable or encumbered at June 30 and paid during the lapse period, which ends August 31 for regular appropriations and December 31 for capital improvement appropriations. The authority to expend appropriations ends with the close of the lapse period. However, the General Assembly may authorize reappropriation of the unexpended balances of capital improvement appropriations for the following year. The General Assembly also may authorize biennial capital improvement appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year.

The cash basis of accounting and the budgetary basis of accounting differ from generally accepted accounting principles, which require revenues to be recognized



when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The commission administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

Gaming Commission Fund: As provided by Section 313.835, RSMo 1994, this fund receives license fees, penalties, administrative fees, reimbursements for services provided, and admission fees authorized under Sections 313.800 to 313.850, RSMo 1994. Appropriations from this fund authorize disbursements for administrative costs incurred by the Missouri Gaming Commission. In addition, appropriations of up to \$500,000 per year may be used to provide matching funds to cities and counties that have demonstrated a need for funding community neighborhood organization programs for the homeless and to deter gang-related violence and crimes.

Gaming Commission Bingo Fund: As provided by Section 313.008, RSMo 1994, this fund receives license fees, penalties, and administrative fees authorized under Section 313.005 to 313.085, RSMo 1994. Appropriations from this fund authorize disbursements for administrative costs incurred by the Missouri Gaming Commission relating to the regulation of bingo operations.

Missouri Breeders Fund: As provided by Section 313.720, RSMo Cumulative Supp. 1999, this fund receives registration fees, gifts or bequests, and such funds as the General Assembly authorized under Section 313.720. Appropriations from this fund authorize disbursements for administrative costs incurred by the Missouri Gaming Commission and incentives for breeders and owners of Missouri bred horses.

D. Employee Fringe Benefits

Missouri State Highway Patrol employees assigned to the Missouri Gaming Commission and paid from the Gaming Commission Fund are covered by the Highway Employee's and Highway Patrol Retirement System (HEHPRS) (a noncontributory plan) and the social security system and may participate in the Missouri Highway and Transportation Department and Missouri State Highway Patrol's medical benefit and life insurance plan and the state's deferred compensation and cafeteria plans. All other commission employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and the social security system and may participate in the state's health care, optional life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Also, the deferred compensation plan involves employee payroll deferrals and a monthly state matching contribution for each participating employee.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS or HEHPRS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation plan match.

Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statement at Exhibit B.

2. Cash and Investments

The balances of the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri Breeders Fund are pooled with other state funds and invested by the state treasurer.

3. Appropriations Exercised by Other State Agencies

Various state agencies receive direct appropriations from the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri Breeders Fund to pay costs incurred for the purposes of those funds. These appropriations were exercised by the following agencies:

Agency	Year Ended June 30,		
	1999	1998	1997
Gaming Commission Fund:			
Attorney General's Office	\$ 81,308	69,248	60,717
Department of Public Safety - Missouri State Highway Patrol	1,097,185	615,371	732,268
State Auditor's Office	13,394	16,732	36,462
Department of Social Services - Division of Youth Services	487,974	437,431	491,584
Office of Administration	265,858	267,477	0
Total Gaming Commission Fund	\$ 1,945,719	1,406,259	1,321,031
Gaming Commission Bingo Fund:			
Department of Public Safety - Missouri State Highway Patrol	\$ 9,106	9,484	8,211
Office of Administration	5,871	7,950	0
Total Gaming Commission Bingo Fund	\$ 14,977	17,434	8,211
Missouri Breeders Fund:			
Office of Administration	\$ 172	212	0
Total Missouri Breeders Fund	\$ 172	212	0

4. Transfers of Gaming Commission Fund Remaining Net Proceeds

Prior to fiscal year 1999, the remaining net proceeds in the Gaming Commission Fund were transferred to the Veterans= Commission Capital Improvement Trust Fund, except that the first \$500,000 of these proceeds were appropriated to the Department of Social Services, Division of Youth Services, to provide matching funds to cities and counties that had demonstrated a need for funding community neighborhood organization programs for the homeless and to deter gang-related violence and crimes.

Beginning with fiscal year 1999, the remaining net proceeds of \$3,000,000 are transferred each to the Veterans= Commission Capital Improvement Trust Fund, Missouri National Guard Trust Fund, and Missouri College Guarantee Fund. After these transfers, any remaining net proceeds, subject to appropriation, are transferred to the Early Childhood Development Education and Care Fund, except that the first \$500,000 which is appropriated to the Department of Social Services, Division of Youth Services, to provide matching funds to cities and counties that have demonstrated a need for funding community neighborhood organization programs for the homeless and to deter gang-related violence and crimes.

The transfer made to the Veterans' Commission Capital Improvement Trust Fund in fiscal year 1999 included \$35,905,493 of remaining net proceeds collected during fiscal year 1998 and therefore, distributed pursuant to the laws effective for fiscal year 1998 collections. The other \$3,000,000 was pursuant to the laws applicable to fiscal year 1999 collections.

The transfers presented in the financial statements were made pursuant to the provisions in Section 313.835, RSMo Cumulative Supp. 1999.

5. Transfers to the General Revenue Fund - State

During fiscal year 1998, \$121,788 was transferred from the Gaming Commission Bingo Fund to the General Revenue Fund - State as required by Section 33.080, RSMo 1994 representing the unexpended balance in the Gaming Commission Bingo Fund.

6. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit B as follows:

Year Ended June 30,			
1999			
Gaming			
	Gaming Commission Fund	Commission Bingo Fund	Missouri Breeders Fund
DISBURSEMENTS PER EXHIBIT A	\$ 12,278,730	44,779	1,500
Fringe benefits	(995,493)	0	0
Lapsed period expenditures:			
1999	471,129	0	0
1998	(723,161)	0	0
Accounts payable, June 30:			
1999	2,247	0	0
1998	(47,826)	0	0
EXPENDITURES PER EXHIBIT B	\$ 10,985,626	44,779	1,500

Year Ended June 30,			
1998			
Gaming			
	Gaming Commission Fund	Commission Bingo Fund	Missouri Breeders Fund
DISBURSEMENTS PER EXHIBIT A	\$ 13,176,031	56,694	4,000
Fringe benefits	(899,684)	0	0
Lapsed period expenditures:			
1998	723,161	0	0
1997	(524,410)	(746)	0
Accounts payable, June 30:			
1998	47,826	0	0
1997	(7,452)	(954)	0
EXPENDITURES PER EXHIBIT B	\$ 12,515,472	54,994	4,000

Year Ended June 30,			
1997			
Gaming			
	Gaming	Commission	Missouri
	Commission	Bingo	Breeders
	Fund	Fund	Fund
DISBURSEMENTS PER EXHIBIT A	\$ 10,489,459	89,112	0
Fringe benefits	(705,583)	0	0
Lapsed period expenditures:			
1997	524,410	746	0
1996	(358,925)	(41,713)	0
Accounts payable, June 30:			
1997	7,452	954	0
1996	(16,505)	0	0
EXPENDITURES PER EXHIBIT B	\$ 9,940,308	49,099	0

Notes to the Supplementary Data:

7. General Fixed Assets

General fixed assets, which are recorded as expenditures when acquired, are capitalized at cost in the General Fixed Assets Account Group and are not depreciated. The commission's general fixed assets are equipment and furniture.

8. Distributions

Distributions represent distributions of receipts for the fiscal year, a portion of which is disbursed after the end of the fiscal year.

9. Reconciliation of Gaming Commission Fund Receipts to Distributions to the Gaming Commission Fund

Receipts on Exhibit A reconcile to distributions on Schedule 3 as follows:

	Year Ended June 30,		
	1999	1998	1997
GAMING COMMISSION FUND RECEIPTS PER EXHIBIT A	\$ 53,640,894	51,396,357	42,745,569
Interest Receivable, June 30:			
1999	2,378		
1998	(2,798)	2,798	
1997		(2,496)	2,496
1996			(655)
DISTRIBUTIONS TO THE GAMING COMMISSION FUND			
PER SCHEDULE 3	\$ <u>53,640,474</u>	<u>51,396,659</u>	<u>42,747,410</u>

## MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -  
State Auditor's Current Recommendations



MISSOURI GAMING COMMISSION  
SUMMARY OF FINDINGS

1. Auditing and Monitoring Procedures (pages 29-32)

The Missouri Gaming Commission (MGC) did not adequately monitor the Daily Tax Remittals. Credit claim forms are not resolved on a timely basis. The MGC's compliance auditors did not document its review of licensees to ensure minimum internal control standard variations and deviations were corrected.

2. License Billings (pages 32-34)

Billings were not prepared and sent on a timely basis for several different types of licenses. The numerical sequence of licenses could not be verified.

3. Supplier Licensing (pages 34-35)

The MGC did not bill a supplier for licensing renewal and suppliers investigations are not completed on a timely basis.

4. Boat Visits (pages 35-36)

Some MGC property tags are on a removable portion of the slot machine. Some serial numbers on the gaming device inventory listing were inaccurate and one slot machine was not properly sealed.

5. \$500 Loss Limit (pages 36-38)

The statutes as currently written do not define what constitutes a \$500 loss. Because of this lack of guidance or clarity in the law, the MGC has chosen to enforce a \$500 buy in limit. Allowing patrons to bring tokens and chips onto a gambling excursion appears to be a violation of the \$500 loss or buy in limit.

MISSOURI GAMING COMMISSION  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S CURRENT RECOMMENDATIONS

We have audited the special-purpose financial statements of the Missouri Gaming Commission as of and for the years ended June 30, 1999, 1998, and 1997, and have issued our report thereon dated September 10, 1999.

The following Management Advisory Report presents our findings and recommendations arising from our audit of the commission's special-purpose financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered as all-inclusive of areas where improvements may be needed.

<b>1.</b>	<b>Auditing and Monitoring Procedures</b>
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The gaming boat operators are required to submit a Daily Tax Remittal form which includes information regarding the adjusted gross receipts (AGR) and admissions to the Missouri Gaming Commission (MGC) for daily gaming operations. The Daily Tax Remittal is used to determine the gaming and admissions taxes. The MGC compliance audit section is responsible for monitoring Daily Tax Remittals and gaming boat operators' gaming tax accounts to ensure the proper amount of gaming and admissions taxes are paid. Our review noted the following areas in need of improvement:

- A. The MGC did not adequately monitor the admissions information on the Daily Tax Remittals resulting in a \$109,474 overpayment of admission taxes for a gaming boat operator. The gaming boat operator had overstated admissions for approximately a year and a half due to problems with the computerized ticketing system. The computerized ticketing system was indicating a higher admissions total than the turnstile readings total. For example, during the days of July 1 through July 6, 1996 the computerized ticketing system indicated 2,743 more admissions than the turnstiles readings. While the MGC reviews the admission tickets sold total and turnstiles total shown on the Daily Tax Remittal and ensures the admission tax is paid based on the higher of the two totals, the MGC did not investigate the large differences being reported between tickets sold and the turnstiles total. The MGC is refunding admission taxes to the gaming boat operator for overpayment of admission taxes.

It appears that an adequate review of the admissions numbers reported on the Daily Tax Remittals should have detected a problem with the computerized ticketing system and prompted an investigation into the problem to resolve the admissions problem and to ensure the correct amount of admission taxes was being paid.

- B. The MGC did not adequately monitor Daily Tax Remittals to ensure gaming boat operators applied credit adjustments of \$40,191 for gaming taxes after the gaming boat operator incurred a negative AGR on a gaming day. A negative AGR occurs when gaming boat operators pay out more in winnings than was received. The gaming boat operators are allowed a credit to gaming taxes owed within the same gaming week for the negative AGR as an offset against a positive AGR. If the credit is not taken in this time period, the gaming boat operator must file a Claim for Refund or Credit Form (credit claim form) with the MGC to be allowed to apply the credit, in accordance with 11 CSR 45-11.110. The credit claim form process (as discussed in C. below) requires additional time and work by the MGC and the Attorney General before the credit can be allowed.

We noted three instances where a gaming boat operator failed to apply for a negative AGR credit against gaming taxes owed within the gaming week and also neglected to file a credit claim form. In addition, we noted three instances where the gaming boat operator did file a credit claim form and is waiting on approval to apply the credit. For one of these instances where a credit claim form had been filed, the credit claim form had been misplaced and the credit amount was not included in the gaming boat operator's final close-out computation until we brought this to the attention of the MGC.

Ensuring the negative AGR credit is applied within the gaming week when possible would be more efficient for the MGC and the gaming boat operators.

- C. Currently, credit claim forms are each reviewed by a hearing officer at the MGC. The MGC's position on the credit claim forms is presented by the Attorney General's office to the hearing officer. As of September 9, 1999, approximately 100 credit claim forms from various gaming boat operators were held by the MGC. The total value of these credit claim forms to the gaming boat operators is approximately \$507,000. Some of these credit claim forms have been on file at the MGC since December 1996. Many of the credit claim forms are due to gaming tax computation errors. Allowing credit claim forms to accumulate and not be resolved on a timely basis appears to be an unreasonable burden on the gaming boat operators and causes the MGC to devote a significant amount of resources to monitor these issues.
- D. The MGC's compliance auditors could not provide documentation that adequate follow up audit procedures were performed to ensure corrective action was taken by licensees in response to minimum internal control standard (MICS) variations or deviations noted in the independent certified public accountant audits. In addition, the MGC did not require one licensee to have a quarterly MICS audit. Instead, the MICS audit for the licensee was performed annually. MGC regulation 11 CSR 45-8.060 requires each licensee to be audited quarterly by an independent certified public accountant.

The MICS was established by the MGC to ensure procedures are adequate for the handling of cash due to the high volume of cash handled by a gaming boat operator and to ensure adjusted gross receipts are properly recorded. To ensure the licensees are adhering to the MICS established by the MGC, the MGC's compliance auditors should follow up on the variations or deviations noted in the independent certified public accountant audit reports and document these follow up reviews.

**WE RECOMMEND** the MGC:

- A. Properly monitor admissions information to ensure admission taxes paid are reasonable.
- B. Properly monitor negative AGR to ensure gaming boat operators are adjusting a subsequent day's AGR for the negative AGR amount to prevent overpayment of gaming taxes and to help avoid the credit claim form process.
- C. Process credit claim forms on a timely basis. In addition, we recommend the MGC work with the Attorney General's office to resolve credit claims forms in a timely manner.
- D.1. Ensure all licensees have a quarterly MICS audit.
- 2. Require its compliance auditors to perform and document follow up procedures for the minimum internal control standards variations or deviations noted in the independent certified public accountant audit reports of licensees to ensure corrective actions are taken.

**AUDITEE'S RESPONSE**

- A. *Agree. It should be noted the responsibility for paying the proper amount of taxes lies with the licensees. The state's interests are protected in that the admission tax is based on the higher of the admission tickets total or the turnstiles total.*

*The Commission, however, has taken the following steps to ensure the licensees compute and pay the proper tax:*

- 1. *Assigned specific staff to the Daily Tax Remittal review process.*
- 2. *Implemented standardized automated worksheets which calculate the figures on the Daily Tax Remittals.*
- B. *Agree. Again, it is the licensee's responsibility to monitor and identify instances where a credit adjustment relating to a negative AGR day is appropriate. The dedicated staff as mentioned above will now permit the Commission to monitor the negative AGR on a daily basis and assist the licensees in paying the proper tax.*

C. *Agree. The Commission began referring credit claims to the Attorney General in 1999. The need for an adjudicative process was informally suggested during a previous audit. Due to the large number of credit claims submitted by licensees and the need to establish a more formal process, the present procedure was implemented. The present process is open to public scrutiny, before an independent hearing officer and with a written record. The Commission has increased the number of hearing officers and assigned a specific staff person to process claims. It should be noted that a number of claims were delayed pending litigation before the Missouri Supreme Court, which was eventually decided in the MGC's favor.*

D.1.  
& 2. *Agree.*

<b>2. License Billings</b>
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The MGC licenses gaming boat employees who are employed in gaming related activities and these licensure fees are paid by the gaming boat operator. The MGC has made some improvements in the procedures regarding the billing of licensing fees since our last report.

A. As part of our review we determined billings were not prepared and sent on a timely basis. Our review noted the following areas in need of improvement:

- ! For seventeen of the fifty-six (30%) Level I occupational (gambling boats) licenses reviewed, billings were not prepared and sent on a timely basis. Six of these licenses were in fiscal year 1997, nine in fiscal year 1998, and two in fiscal year 1999. These Level I billings were sent out approximately two months to one year after the employee's license date.
- ! For six of the forty-seven (13%) Level II occupational (gambling boats) licenses reviewed, billings were not prepared and sent on a timely basis. These Level II billings were sent out approximately two to eight months after the employee's license date. The untimely billings were for application fees and the initial prorated portion of license fees. Four of the six untimely billings were made in the last year of the audit period.
- ! For twelve of the thirty-eight Level II occupational (suppliers) licenses reviewed, billings were not prepared and sent out timely. Five of these licenses were in fiscal year 1997, four in fiscal year 1998, and three in fiscal year 1999. These Level II supplier license billings were sent out approximately five weeks to ten months after the supplier's license date. The only fees that are billed to Level II suppliers is the initial prorated portion of their licensing fees.

- B. As part of our review of MGC's licensing system, we attempted to verify the numerical sequence of license numbers assigned for the various types of licenses. Our review noted the following areas in need of improvement:

- ! In August 1998, the MGC changed the procedure for assigning Level II occupational license numbers. Prior to that time, license numbers were assigned based on the gaming boat operator at which an individual was employed and each gaming boat operator had their own sequence of license numbers. In August 1998, the MGC converted all existing license numbers to a new sequence of license numbers in the Missouri Occupational Licensing Enforcement System (MOLES). Currently, all Level II occupational employees are issued licenses from this sequence. However, during the reassignment of license numbers, we noted 105 license numbers were missing. We selected 10 out of the 105 missing license numbers and requested the MGC to provide documentation regarding those 10 license numbers. The MGC was able to document eight out of ten missing license numbers resulted from an individual being issued another number by mistake, with the old license number being deleted. However, MGC was unable to document what happened to the other two license numbers.
- ! The MGC issues licenses to all organizations which hold bingo events and these licenses are maintained in the Bingo Organization licensing database. During our test of bingo organization licenses we noted four missing license numbers. Although the MGC indicated four bingo organizations had been issued two license numbers and the MGC had probably deleted the second license number, the MGC had no documentation supporting this explanation.

To adequately monitor license billings and to maximize licensing revenues, the numerical sequence of license numbers issued should be accounted for properly. Documentation should be maintained for voided and missing license numbers. Documentation could include the review performed by the MGC over voided and missing license numbers and the results of the review.

**WE RECOMMEND** the MGC:

- A. Ensure billings for all types of licenses are prepared and sent on a timely basis.
- B. Ensure the completeness of the MOLES and the Bingo Organization licensing database by accounting for the numerical sequence of license numbers issued and maintain documentation of voided and missing license numbers.

**AUDITEE'S RESPONSE**

- A. *Agree. The problem involved in ensuring timely billings has been staffing and information technology programs and support. Additional clerical staff have been hired, and two*

*additional information technology positions have been authorized in the fiscal year 2001 budget. The priority is to design and implement a system to eliminate the problems identified in this audit.*

*To put this issue in perspective, it should be noted that during this audit period the Commission collected revenues in excess of \$4.1 million for the following types of licenses;*

*22,358 Level Two Licenses/riverboats (issued)  
45,123 Level Two Licenses/riverboats (renewed)  
200 Level Two Licenses/suppliers (issued)  
408 Level Two Licenses/suppliers (renewed)  
152 Level One Licenses (issued)  
695 Level One Licenses (renewed)*

*As previously stated, during this audit period, the Commission implemented a new licensing system. MOLES caused a delay in billings due to conversion, however, the Commission did properly collect all revenue due to the state.*

- B. Agree. A system will be implemented in fiscal year 2001 which will provide for automatic on-line documentation of voided and/or missing license numbers. Until the fiscal year 2001 licensing system is implemented, the Commission will ensure that manual documentation is carefully maintained.*

<b>3. Supplier Licensing</b>
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The MGC licenses companies that supply the gaming boat operators with equipment and equipment maintenance services, and the licensure fees are paid by the company receiving the license. Our review noted the following areas in need of improvement:

- A. During our review of supplier licenses, we traced payments made on several licenses per the applicant's database system to revenue transmittal documentation. However, we noted a \$5,000 payment for annual license fees posted to a supplier license did not trace to revenue transmittal documentation and did not appear to have been paid. After we brought this to the attention of the MGC, the MGC billed the supplier for the supplier annual license fees of \$5,000. The MGC notified the supplier that the \$5,000 is due unless the supplier can provide documentation that payment had been made to the MGC. The MGC does not reconcile payments made by suppliers to the applicant's database system. Performing a reconciliation between payments received and payments posted to the applicant's database system would ensure accuracy of the applicant's database system and ensure suppliers have paid their appropriate fees.
- B. Investigations for supplier licenses are not completed on a timely basis. The MGC will issue a temporary supplier license if preliminary background investigations have been successfully completed and the supplier is licensed in another state.

Applications for supplier licenses have been accepted since 1993, and the MGC has issued twelve permanent supplier licenses. However, there are still nine suppliers that hold temporary supplier licenses whose application dates ranged from November 1993 to July 1996. This appears to be an excessive amount of time for a supplier to be under review.

Supplier licenses investigations should be completed on a timely basis to ensure the interests of the public are adequately safeguarded.

Condition B. was also noted in our prior report.

**WE RECOMMEND** the MGC:

- A. Perform a reconciliation of payments received from suppliers to payments posted to the supplier database to ensure suppliers have paid their appropriate fees.
- B. Complete license investigations on the nine temporary suppliers and ensure future supplier investigations are completed on a timely basis.

**AUDITEE'S RESPONSE**

- A. *Agree. The Commission has implemented this recommendation. The annual fee in question on this audit has since been collected.*
- B. *Supplier investigations have been completed by the Commission as timely as possible considering the manpower available to the Commission. Several major unanticipated investigations have delayed the completion of supplier license investigations.*

<b>4. Boat Visits</b>
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As part of our review of the MGC, we visited five of the boat operations to review procedures. A review of the gaming device (slot machines) inventory listing was performed along with testing the computer chips in several slot machines. Our review noted the following areas in need of improvement:

- A. While performing an inventory of slot machines on one boat, we noted the MGC property tag was incorrect for a slot machine. We located the property tag we were looking for on the slot machine next to the slot machine being tested. The MGC property tag had been placed on a removable portion of the slot machine. The MGC should require the MGC property tag be placed on a section of the slot machine that can not be removed to help ensure the accuracy of the gaming device inventory list and to ensure only properly tested machines are on the gaming floor.



- B. For four of the boats visited, we noted several slot machines where the serial number of the slot machine per the gaming device inventory listing did not agree to the actual serial number on the slot machine. In addition, we noted on one boat an instance (excluding item indicated in A. above) where the MGC property tag number per the gaming device inventory listing did not agree to the actual property tag number on the slot machine. Complete and accurate gaming device inventory listings are necessary to ensure only properly tested machines are on the gaming floor.
- C. When we were testing the computer chips in the slot machines, we noted one instance where the motherboard was not properly sealed to the slot machine with evidence tape. 11 CSR 45-5.210 (J) requires evidence tape to be affixed by an authorized commission agent and must include the date, signature, and identification number of the agent. The MGC requires the Missouri State Highway Patrol officers to put evidence tape over the computer chips after being put in the motherboard. Then the motherboard is sealed with security tape when put into the slot machine. The MGC should ensure the motherboard is properly sealed into the slot machine to reduce the risks of tampering with the computer chips.

**WE RECOMMEND** the MGC:

- A. Require the MGC property tag be placed on a part of the slot machine that is not removable.
- B. Ensure serial numbers and property tag numbers are accurately included on the gaming device inventory listings.
- C. Ensure the motherboard is properly sealed into the slot machines.

**AUDITEE'S RESPONSE**

- A. *Agree. Procedures have been implemented by the Patrol and Commission Enforcement staff to prevent a reoccurrence.*

*B&C. Agree.*

<b>5.</b>	<b>\$500 Loss Limit</b>
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Section 313.805 (3) RSMo 1994 indicates AThe commission shall regulate the wagering structure for gambling excursions including providing a maximum loss of \$500 per individual player per gambling excursion.@ The statutes as currently written do not define what constitutes a \$500 loss. Because of this lack of guidance or clarity in the law, the MGC has chosen to enforce a \$500 buy in limit. Our review has identified circumstances that raise questions about the state=s \$500 loss or buy in limit per excursion.

The amount that an individual can lose for each excursion is only limited by the amount of winnings during an excursion or consecutive excursions, the amount of tokens or chips an individual is allowed to carry onto a boat at the start of a visit, and the \$500 buy in limit per excursion. Our questions about the Aloss limit® were raised when we observed the entrances to one of the boats for a gaming excursion and noted some individuals were allowed to enter the gaming excursion carrying containers of gambling tokens. Individuals entering a gaming excursion are given a Ascrip® or electronic card which allows an individual to buy chips or tokens up to \$500 per gaming excursion, the buy in limit. Allowing individuals with a \$500 scrip or electronic card to also bring tokens onto a gaming excursion appears to have the effect of raising the buy in limit to \$500 plus the amount of the tokens or chips carried onto the boat.

The MGC has indicated that to more strictly enforce the \$500 loss limit per gambling excursion, the MGC would have to require all individuals to cash in their tokens or chips at the end of a gambling excursion even if that individual remained on the boat for the next excursion. The MGC believes such a procedure would be difficult to enforce and could have a negative impact on gaming revenues particularly when the boats have large numbers of patrons. The MGC also indicated that although requiring individuals leaving the boats to cash in their tokens or chips would have a lesser detrimental effect, it still would likely reduce the state's gaming revenues.

Allowing individuals to enter a gaming excursion with tokens or chips from previous gaming excursions appears to be a violation of the state's \$500 loss or buy in limit. It appears, at a minimum, the MGC could improve its enforcement of the \$500 loss limit by requiring all patrons to cash in their tokens or chips as they leave the boat without going so far as to require all patrons who remain on the boat for the next excursion to do so.

**WE RECOMMEND** the MGC discontinue the practice of allowing individuals to enter a gaming excursion with tokens or chips from previous gaming excursions to improve enforcement of the \$500 loss limit. In addition, we recommend the MGC request the legislature provide additional guidance regarding how the \$500 loss limit should be interpreted and enforced.

### **AUDITEE'S RESPONSE**

*Disagree. Given the difficulties of enforcing the \$500 loss limit statute as currently written which does not define what constitutes a loss, the Commission selected the present method of enforcement. The MGC views the loss limit as a restriction on a patron's net loss during the total number of gambling excursions they attend. The Auditor's interpretation of the loss limit suggests it is a restriction on the amount a patron can lose in the aggregate, instead of a net loss.*

*The practical implications of these differing views are substantial and could result in a substantial decline of tax revenue and make it extremely difficult for Missouri casinos to operate in the highly competitive environment created by casinos in adjoining states. The MGC considered adopting an*

*enforcement plan in the early days of excursion riverboat gambling similar to that suggested by the Auditor, but rejected it as unworkable.*

*While the Auditor's interpretation of the statute may be correct, it is simply another view of a vague statute that fails to define its most important term. The MGC has chosen to take a practical view of enforcement of this statute which, incidentally has no penalty provisions for violation. The net effect of the Commission's decision has permitted millions of patrons to enjoy the casino experience, provided thousands of jobs and generated substantial revenues.*

*The Auditor's review should serve as an incentive for the legislature to examine the loss limit language and establish a more understandable public policy statement. This examination should occur in conjunction with the recommendation contained in MGC's statutorily mandated fiscal year 1999 annual report, which suggested that the Legislature consider whether the loss limit is achieving its intended public policy objective.*

This report is intended for the information of the management of the Missouri Gaming Commission and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

## Follow-up on State Auditor's Prior Recommendations

MISSOURI GAMING COMMISSION  
FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS

This section reports follow-up action taken by the Missouri Gaming Commission on recommendations made in the Management Advisory Report (MAR) of our report issued for the two years ended June 30, 1996. The prior recommendations which have not been implemented, but are considered significant, have been repeated in the current MAR. Although the remaining unimplemented recommendations have not been repeated, the commission should consider implementing these recommendations.

1. Payroll

During fiscal years 1995 and 1996, over \$38,000 of Gaming Commission Fund monies were used to pay salaries and fringe benefits for Missouri Gaming Commission (MGC), Division of Gaming employees that performed work for the MGC, Division of Bingo. Prior to August 28, 1996, Section 313.835, RSMo 1994 indicates the sole purpose of the Gaming Commission Fund was to fund the administrative costs of the commission relating to excursion gambling boat operations. Therefore, using these funds to pay fiscal years 1995 and 1996 expenditures of the Division of Bingo appears to have been in violation of state law.

Recommendation:

The MGC:

- A. Ensure the Gaming Division's appropriations from the Gaming Commission Fund are only used for the purposes authorized by state law.
2. Ensure funding changes are authorized by state law before funding changes are made.
3. Reimburse the Gaming Commission Fund for approximately \$38,000 expended for the Bingo Division.

Status:

A&B. Implemented.

- C. Not implemented. The MGC contacted the Office of Budget and Planning regarding the \$38,000 reimbursement but no appropriation for reimbursement was enacted. Although not repeated in the current report, our recommendation remains as stated above.

2. Auditing and Monitoring Procedures

1. The MGC's compliance auditors had not developed procedures to ensure all individuals that sign gaming reports were listed on its licensing system as possessing occupational licenses issued by the commission. In addition, the MGC's database on licenses contained inaccurate information regarding employment status of certain licensees.

2. The MGC's compliance auditors did not provide documentation that adequate follow up audit procedures were performed to ensure corrective action was taken by licensees in response to minimum internal control standard variations or deviations noted in the independent certified public accountant audits of the licensees.
- C. Complete itemized documentation was not obtained from a gaming operator to support a \$20,864 gaming tax credit issued.

Recommendation:

- A.1. Review signatures and license numbers on gaming reports to ensure only licensed individuals participate in gaming operations.
2. Require the licensee's name and number be clearly printed or typed along with the licensee's signature on all gaming reports submitted to the division.
2. Require its compliance auditors to perform and document follow up procedures for the minimum internal control standards variations or deviations noted in the independent certified public accountant audit reports of licensees to ensure corrective actions are taken by the licensees.
3. Obtain complete and detailed documentation to support completely and adequately all approved credits.

Status:

- A.1. Partially implemented. We did not note any instances of an inactive employee signing gaming reports. However, the license number of the employee is not always indicated on the gaming reports. Although not repeated in the current report, our recommendation remains as stated above.
- A.2. Not implemented. The licensee's name and number are not printed or typed on gaming reports submitted to the division. Although not repeated in the current report, our recommendation remains as stated above.
- B. Partially implemented. The MGC indicated the CPA reports are reviewed and procedures modified to address problem areas for the next time the MGC performs an audit on the gaming boat operator. However, there is no documentation supporting this statement. See MAR No. 1.
- C. Implemented.

3. Supplier Licensing and Investigations

1. Although the MGC authorized gaming suppliers to begin operating in Missouri in 1994, the MGC waited until 1996, to bill and collect from suppliers \$235,000 for current and past license fees.

2. Supplier license investigations were not completed on a timely basis.

Recommendation:

The MGC:

1. Bill suppliers licenses on a timely basis.
2. Complete license investigations on a timely basis.

Status:

- A. Partially implemented. The MGC has improved procedures to bill suppliers on a timely basis. However, we noted areas in need of improvement. See MAR No. 2 and 3.
- B. Not implemented. See MAR No. 3.

4. License Billings

Although the MGC's accounting personnel had made numerous license billing adjustments and corrections, our review of Level II occupational license billings detected several uncorrected billing errors.

Recommendation:

The MGC:

1. Perform thorough reviews of license billings prior to mailing the billings.
2. Adjust future license billings to correct billing errors and omissions noted during our audit.
3. Promulgate regulations on a timely basis.

Status:

Implemented.

5. Enforcement Billings

Fringe benefits totaling over \$34,000 for enforcement overtime costs were not billed to the gaming boat operators. Fringe benefits for enforcement overtime costs were billed on only three invoices prepared by the MGC. Furthermore, the MGC had not billed gaming boats for deferred compensation incentive payments for MSHP employees that performed enforcement duties for the MGC.

Recommendation:

The MGC:

- A. Monitor expenditures from the MGC's appropriations and transfers for employee benefits to ensure the expenditures and transfers are proper and reasonable.
- B. Ensure all enforcement and investigation costs attributable to gaming boats are billed to the gaming boat operators.

Status:

Implemented.

6. Transfers to Veterans' Commission Capital Improvement Trust Fund

The transfer of \$7.5 million of the remaining July 1, 1995 balance of the Gaming Commission Fund was not made until March 1996. The remaining July 1, 1996 balance of \$23.5 million was not transferred to the Veterans' Commission Capital Improvement Trust Fund until July 1997. Although the statute did not establish a specific date for these transfers to be made, it certainly appears these transfers could be made in a more timely manner which could also impact planning considerations for the Veterans' Commission.

Recommendation:

The Office of Administration transfer the unencumbered balance of the Gaming Commission Fund to the Veterans' Commission Capital Improvement Trust Fund in a timely manner.

Status:

Implemented.

7. Access to Records

During the initial fieldwork phase of this audit by the State Auditor's Office (SAO), the general counsel of the MGC indicated that access to certain records would not be allowed, although the State Auditor's Office had been permitted full access to all applicable records and areas in the prior audit. The withheld records hindered the effective and efficient completion of the audit of the MGC.

Recommendation:

The MGC in the future promptly provide all records necessary to allow the operations of the commission to be audited in an efficient and effective manner.

Status:

Implemented.



## STATISTICAL SECTION

History, Organization, and  
Statistical Information

## MISSOURI GAMING COMMISSION HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Missouri Gaming Commission was established in 1993 by the Eighty-Seventh General Assembly, as specified by Chapter 313, RSMo.

Section 313.822, RSMo 1994, provides that a tax be imposed on the adjusted gross receipts (the gross receipts from licensed gambling games and devices less the winnings paid to wagerers) at the rate of twenty percent. This section allows the home dock city or county to receive ten percent of the adjusted gross receipts tax and the remainder to be deposited in the state treasury to the credit of the "Gaming Proceeds for Education Fund." Furthermore, Article III, Section 39(d) of the Missouri Constitution requires all state revenues derived from gaming activities be appropriated solely for public institutions of elementary, secondary, and higher education.

Section 313.820, RSMo 1994, provides that an excursion boat licensee shall pay to the commission an admission fee of two dollars for each person embarking on an excursion with a ticket of admission. One dollar shall be paid to the home dock city and county while the other dollar, per Section 313.835, RSMo 1994, shall be deposited in the state treasury to the credit of the "Gaming Commission Fund". This fund is for the purpose of funding the administrative costs of the commission relating to excursion gambling boat operations, subject to appropriation. This fund also includes revenues received by the commission for license fees, penalties, administrative fees, and reimbursement by any excursion gambling boat operators for services provided by the commission.

The commission performs all duties and has all powers and responsibilities conferred and imposed upon it relating to the licensing and regulation of excursion gambling boats and the lawful operation of the game of bingo under Chapter 313, RSMo 1994. Effective August 28, 1996, the Missouri Gaming Commission became responsible for regulating horse racing under Chapter 313, RSMo Cumulative Supp. 1999. Within the commission there is a Division of Gaming and a Division of Bingo. The Executive Director of the Missouri Gaming Commission is hired by the commission. Mr. Tom Irwin served as the Executive Director of the Missouri Gaming Commission from November 15, 1993 through November 14, 1997. Mel Fisher began serving as the Acting Executive Director on November 15, 1997, until being named Executive Director on August 26, 1998.

The Missouri Gaming Commission consists of five members appointed by the governor, with the advice and consent of the Senate. Terms of members are for three years on a staggered basis. No person shall serve as a member more than six years. The chairman is appointed by the governor.

At June 30, 1999, members of the Missouri Gaming Commission were:\*

Julian Seeherman, Chairman  
Lynne Nikolaisen  
Robert Smith  
Lewis Ullery

Term Expires  
April 2000  
April 2002  
April 2002  
April 2001

\* At June 30, 1999 there were only four members of the Missouri Gaming Commission and no individual has been appointed to be the fifth member.

At June 30, 1999, the Missouri Gaming Commission had 171 employees. An organization chart follows.

MISSOURI GAMING COMMISSION  
ORGANIZATION CHART  
JUNE 30, 1999

